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Immediate release

Ottawa, April 13, 1988

88-42

DRAFT LEGISLATION ON INCOME TAX REFORM ISSUED

The Honourable Michael Wilson, Minister of Finance, today released draft legislation to implement the income tax reform measures.

The draft legislation is based on the Ways and Means Motion tabled in the House of Commons last December 16. That Motion reflected the widespread public consultations on the Tax Reform White Paper issued in June 1987.

The Minister said the amendments are being released in draft form to provide an opportunity for the Commons Standing Committee on Finance and Economic Affairs and interested persons to comment on the legislation before its formal introduction in Parliament.

Mr. Wilson said the measures will contribute to a fairer income tax system in which the vast majority of Canadian households will pay substantially less personal income tax.

"The tax reform measures will achieve this by lowering personal tax rates, converting the personal exemptions and certain deductions to tax credits, and dropping or reducing a number of tax preferences," he said.

"While corporate tax rates are also being reduced, a significant reduction in tax preferences available to corporations will broaden the base to which the rates apply so that profitable corporations will bear a larger share of the total tax burden."

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The Minister emphasized that the result of these measures is that high-income individuals and corporations will pay their fair share of tax. "In addition, with lower marginal tax rates and fewer special tax concessions, business and investment decisions will be governed more by market forces and less by tax considerations. As a result, Canada's economic performance will improve."

The Minister indicated that the draft legislation reflects refinements made in response to comments on the December 16 proposals. He noted in particular the extension of the special capital gains exemption to gains made by individuals on the sale of eligible capital property. Thus, for example, a farm quota will constitute qualified farm property and any gain on its sale will be eligible for the special \$500,000 exemption available for individual farmers.

Mr. Wilson also noted that the effective dates for the measures are for the most part in accordance with the December 16 Ways and Means Motion. Several provisions resulting from refinements will take effect at a future date, but none is effective as of today's release of the draft legislation. The general anti-avoidance rule will take effect on Royal Assent.

The Minister pointed out that the draft amendments issued today do not include the draft legislation on preferred shares, which will be made available later this month. He also indicated that today's draft does not include the income tax changes announced in his February 10, 1988 budget, the proposed changes to the rules relating to trusts, and the proposals in the Tax Reform White Paper relating to the treatment of farm income and losses. He said there have been extensive consultations on these measures and that he expects to be in a position to incorporate these changes in the final legislation.

That final legislation is expected to be introduced later in the spring following a review of the draft legislation by the House Committee on Finance and Economic Affairs. The Minister indicated that explanatory notes, to assist Committee members in their review, will be made public as soon as possible.

The Minister stressed the importance that the government attaches to the passage of this tax legislation before the summer recess of Parliament, and added: "There has been widespread support for these tax reform measures and we recognize the importance of avoiding the uncertainty that a delay in its adoption would entail."

Members of the public who have suggestions for technical changes are requested to communicate directly with the Department of Finance. To ensure that changes can be incorporated in the final legislation, representations should be submitted as soon as possible and before May 20 at the latest, addressed to the Tax Policy-Legislation Division, Department of Finance, Ottawa, K1A 0G5.

